

Proviso: inventory value.

Final distribution treated as sale.

uary first, one thousand nine hundred and twenty-one, the fair market price of the value of such property as of that date, and in all other cases, the cost thereof: *Provided*, that in the case of property which was included in the last preceding annual inventory used in determining net income in a return under this act, such inventory value shall be taken in lieu of costs of market value. The final distribution to the taxpayer of the assets of a corporation shall be treated as a sale of the stock or securities of the corporation owned by him, and the gain or loss shall be computed accordingly.

SEC. 320. *Exchanges of property.*

Exchange of property conversion of assets.

1. When property is exchanged for other property, the property received in exchange shall be considered as a conversion of assets from one form to another, from which no gain or loss shall be deemed to arise.

Stock or securities to take place of property transferred therefor.

2. In the case of the organization of a corporation, the stock or securities received shall be considered to take the place of property transferred therefor, and no gain or loss shall be deemed to arise therefrom.

Basis of computing loss or gain on reorganization or consolidation of a corporation.

3. When in connection with the reorganization, merger or consolidation of a corporation, a taxpayer receives, in place of stock, or securities owned by him, new stock or securities, the basis of computing the gain or loss, if any, shall be, in case the stock or securities owned were acquired before January first, one thousand nine hundred and twenty-one, the fair market price or value thereof as of that date, and in all other cases the cost thereof.

SEC. 321. *Inventory.*

Inventories to be furnished.

Whenever in the opinion of the Commissioner of Revenue it is necessary in order clearly to determine the income of any taxpayer, inventories shall be taken by such taxpayer, upon such basis as the Commissioner of Revenue may prescribe, conforming as nearly as may be to the best accounting practice in the trade or business and most clearly reflecting the income.

SEC. 322. *Deductions.*

In computing net incomes there shall be allowed as deductions:

Necessary expenses in carrying on business.
As to individuals: Reasonable wages of employees.
As to partnerships: Reasonable wages of employees and reasonable to co-partners for services rendered.

1. All the ordinary and necessary expenses paid during the income year in carrying on any trade or business, including:

(a) As to individuals, reasonable wages of employees for services actually rendered in producing such income.

(b) As to partnerships, reasonable wages of employees and a reasonable allowance for co-partners or members of a firm, for services actually rendered in producing such income, the